

Delaware jobs: Sliding home prices stall construction, idling thousands

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As spring slowly shoulders winter aside, homebuilders and house buyers alike are beginning to re-emerge, bringing some new life to a residential real-estate market that has been so soft for so long.

At Brenford Woods near Smyrna, siding is going up on some new single-family homes. At Dennison Ridge in Hockessin, work is getting under way on 12 new town homes.

It's a shard of hope for a sector of Delaware's economy that has shed thousands of jobs in the past few years -- a segment that bore the brunt of the deep recession and has remained depressed long after idled bankers, nurses and lab technicians landed new positions.

But it's a very thin reed for the many professions who rely on a vigorous [trading](#) of residential real estate, spanning professions from carpenters, plumbers, electricians and landscapers to attorneys, Realtors, bankers, contractors and even insurers and home-furnishing retailers.

"The housing market does not feed the rich developer. The housing market feeds the plumber, the framer, the drywaller, the Amish community, the cleaning services," said Jennifer Casey, executive vice president of the Home Builders Association of Delaware.

Casey and others sense more activity as spring begins, but also say it may be years before Delaware's homebuilding businesses see a vigor that even approaches the boom years.

The slowdown has persisted into this year -- January residential building permits fell 19 percent from 2010 to 2011 in Delaware.

Recovery will require foreclosures to subside, and excess inventory to be sold, reducing the supply of lower-priced alternatives to new construction. And full recovery will also require an adequate supply of jobs that would give more

people the confidence and means to buy.

Until then, the outlook remains murky at best, doubly so for trade workers thrown into unemployment lines that in Delaware still include more than 30,000 people.

The housing bust that began in 2006-2007 contributed most heavily to joblessness in Delaware that drove the state's rate to close to 10 percent in 2009 and remains at 8.4 percent.

After peaking at an average of 29,400 workers in 2006, the construction sector shed 5,000 jobs in Delaware between 2008 and 2009. Since the end of 2006, 10,000 jobs -- more than a third -- have been lost, 6,000 of them in residential construction, according to the state Labor Department.

The downturn has left over 2.2 million construction workers unemployed nationwide, for an industry unemployment rate of 21.8 percent, more than twice the national average, according to Associated General Contractors of America.

The slump also has thinned the ranks of Realtors. In Kent County, there were 608 Realtors during the tail end of the boom in 2006. "We're down to like 360" now, said Eric Howlett, president of the Kent County Association of Realtors. Statewide, real-estate sector employment has fallen from 5,013 in 2007 to 4,482 in 2010, according to the state Labor Department.

The loss of all those jobs -- and support jobs in finance and at suppliers -- took a great deal of air out of the Delaware economy that has yet to return.

In 2008, the **National Association of Home Builders** figured that construction of the average new single-family home created 3.05 jobs and produced \$89,216 in taxes. Combined, the real-estate and construction sectors made up nearly 16 percent of Delaware's gross domestic product, according to the Bureau of Economic Analysis.

"Construction is usually the thing that gets us out of a recession or a depression," said Scott Bradley, construction manager for Bestfield Homes in Wilmington. "Once construction gets going, it starts feeding the rest of the industries out there. It's like a domino effect."

Vicious cycle

The housing industry remains mired in a vicious cycle, partly because of the recession's causes -- cheap, easy credit among them.

To move forward, the market needs confident buyers, but those have become relatively scarce in the wake of layoffs, falling home values and the consequent impact on equity. People are saving more, and not looking to [invest](#) in real estate.

"People aren't moving up, and that's what moves homes," said Tom Beane, turnaround [consultant](#) and president of Beane Associates in Brandywine Hundred, who has helped several builders and suppliers through the downturn. "There's also the whole idea of not only are there a lot of homes available, when there are a lot of foreclosures or short sales, it drives the price down even further."

Additionally, to buy that move-up home, people need access to the low-rate mortgages that are ostensibly available, but in reality attainable by far fewer people because of heightened lending and down-payment standards, insiders said.

That lender reluctance extends to the builders' own financing as well.

"The bank industry in general has a distaste for anything that involves construction financing," Casey said. "Developers are not moving forward unless it's driven by consumers because they're not in a position to get financing for anything that's speculative."

And even when financing falls into place, builders say they contend with a perception -- mistaken in many cases -- that a lower-priced older home is a better value than a more expensive new home. And until the foreclosures begin to ease, the supply of those existing homes, and the downward pressure on their prices, will remain.

"What's really killing our market is the foreclosures," Howlett said. "They probably make up 40 percent of the sales right now."

For builders, those dynamics offer few reasons to break ground on new projects without signed contracts upfront. Projects that are put up with a hope of finding a buyer -- "spec" building -- are nearly nonexistent, homebuilders said.

There's moderate activity for "non-contingent contract" new homes -- deals where a home goes to a customer who is not obliged to sell before he can buy.

"Certainly there aren't many banks that are going to be funding spec homes for new developments. They just can't do it," Beane said.

In February, builders broke ground on the fewest homes in nearly two years nationally, the second-lowest rate on records dating back more than a half-century, according to a Commerce Department report.

Some potential buyers who could qualify for loans are hesitant to enter the market, worried that prices will fall further.

At the same time, builders say rising costs have made it harder to build at a profit. While December prices for overall construction materials rose 2.5 percent from the previous year, residential building materials were up 4.5 percent, despite softer demand. Copper prices alone have risen 21 percent from 2009, and lumber is up 6.3 percent.

"You can't build a new home for what the existing homes are selling for," said Fred Fortunato, vice president of project management at Benchmark Builders in Wilmington. "It's difficult, because we can't raise our prices. We're basically eating the cost increase."

Other work goes on

Outside the residential sector, construction activity has been more vigorous, both in Delaware and around the country.

There's work to be found building for relatively thriving industries -- such as health care -- and for public-sector projects such as schools.

But that activity doesn't easily translate into jobs for residential construction trades, insiders say, and the volume of projects remains spotty.

"It looks like there's a lot more out there to bid, but it's not as fast as we would like it," said Ed Capodanno, president of the Associated Builders and Contractors of Delaware, which represents mainly commercial-project workers. "There seems to be a lot in the pipeline. It just hasn't made it to the bid stage."

Government could help jump-start the new construction market -- with such programs as last year's tax credit for first-time buyers, builders said. Government could also help by staying out of the way, many noted, especially when it comes to potentially costly building-code modifications.

If financing dynamics become steadier, some growth appears inevitable, considering the pent-up demand, said Jennifer Casey, of the **Home Builders Association**. "The real action could be double or triple what you see," she said.

Until then, the unprecedented backlog of inventory -- and the continuing foreclosure crisis -- will mean a long, slow recovery, many agree. And that means jobs in construction and real-estate support trades will remain hard to find this year, and probably in 2012 as well.

"For the most part, I think in calendar year 2011, we'll see some areas where we'll see things picking up, but in general it will be as slow as 2010," said John J. Casey, executive vice president of the Delaware Contractors Association. "We hope that things will turn a little in 2012, but there's no guarantee there, either."

Some of the hurdles are legitimate, but there's a strong feeling that some negative sentiment is the creation of the media machine.

"There is a pent-up demand out there, but you get so much bogeyman coming out of the media that people are scared," Howlett said.

That sentiment won't shift until people start hearing better employment news, insiders agree.

"The bottom line ... it's all about the jobs and there's not a lot of private-sector jobs being created in Delaware," John Casey said.



Work is under way on this new home at 125 Needham Dr. in Brenford Woods, near Smyrna. The community is one of the state's few bright spots in residential construction. / The News Journal/BOB HERBERT